clark canadian exploration company

Annual Report 1970

clark canadian exploration company

(Incorporated under the laws of the State of Texas)

DIRECTORS

Patrick S. Beaird *Denver, Colorado*
E. B. Clark, Sr. *Wichita Falls, Texas*
Gene Clark, Jr. *Denver, Colorado*
D. G. Lawson *Toronto, Ontario*
J. N. Sherrill, Jr. *Wichita Falls, Texas*

OFFICERS

E. B. Clark, Sr. *Chairman of the Board*
Gene Clark, Jr. *President and Chief Executive Officer*
J. N. Sherrill, Jr. *Vice-President and General Counsel*
Patrick S. Beaird *Vice-President*
Claude R. Nash *Secretary, Treasurer and Chief Financial Officer*

COUNSEL

Sherrill, Pace & Rogers *Wichita Falls, Texas*
MacKimmie Matthews *Calgary, Alberta*
Stapells, Sewell, Stapells, Patterson & Rodgers *Toronto, Ontario*

AUDITORS

Arthur Andersen & Co. *Denver, Colorado*

REGISTRAR AND TRANSFER AGENT

The Canada Trust Company *Toronto, Ontario — Calgary, Alberta*

EXCHANGE LISTING

Toronto Stock Exchange *Toronto, Ontario*

CORPORATE HEADQUARTERS

824 Patterson Building, *Denver, Colorado* (303) 825-2285

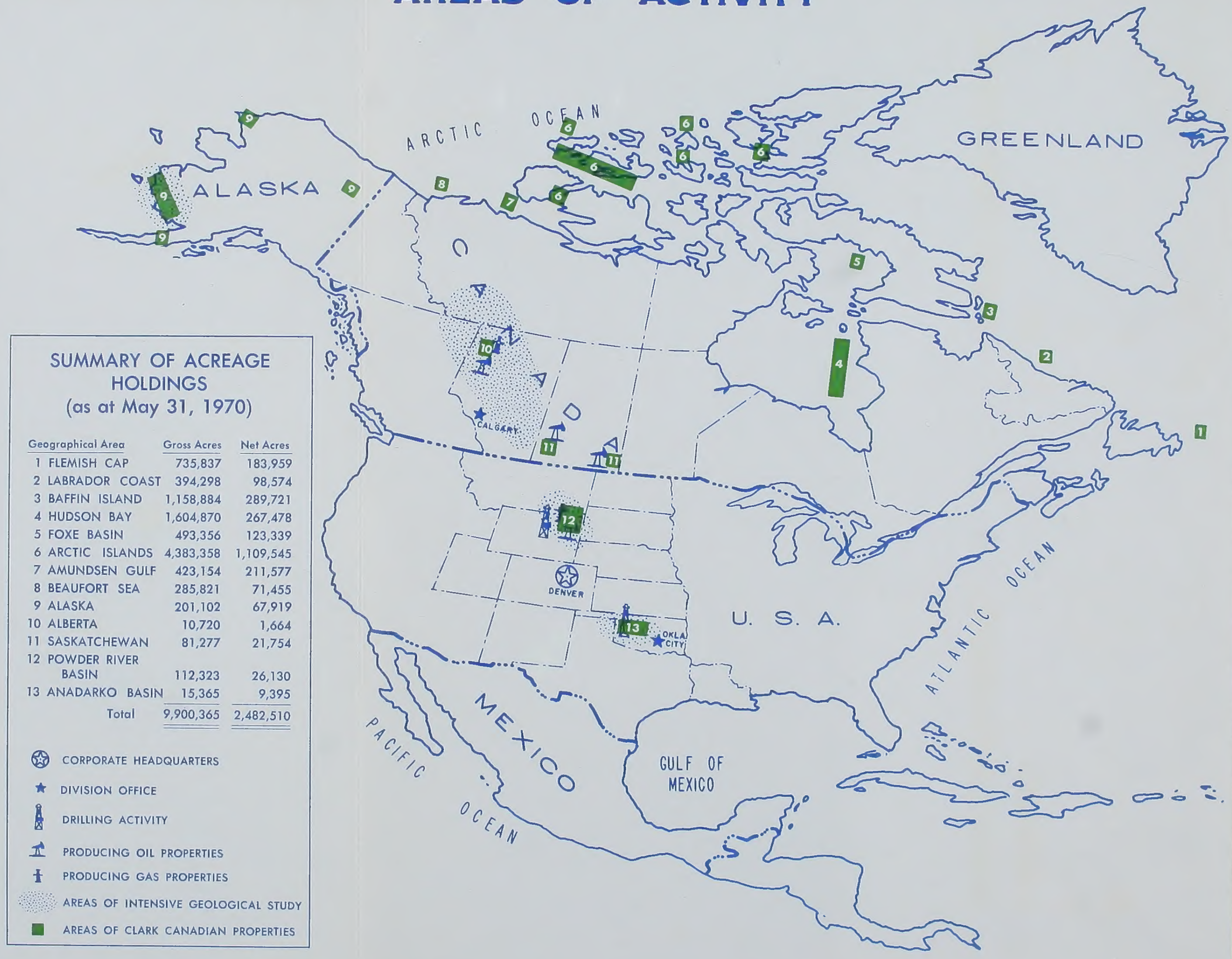
CANADIAN DIVISION

798 Pacific Plaza, *Calgary, Alberta* (403) 262-9586

OKLAHOMA DIVISION

1704 Fidelity National Bank Building, *Oklahoma City, Oklahoma* (405) 239-2561

CLARK CANADIAN EXPLORATION COMPANY
AREAS OF ACTIVITY



SUMMARY OF ACREAGE HOLDINGS (as at May 31, 1970)

Geographical Area	Gross Acres	Net Acres
1 FLEMISH CAP	735,837	183,959
2 LABRADOR COAST	394,298	98,574
3 BAFFIN ISLAND	1,158,884	289,721
4 HUDSON BAY	1,604,870	267,478
5 FOXE BASIN	493,356	123,339
6 ARCTIC ISLANDS	4,383,358	1,109,545
7 AMUNDSEN GULF	423,154	211,577
8 BEAUFORT SEA	285,821	71,455
9 ALASKA	201,102	67,919
10 ALBERTA	10,720	1,664
11 SASKATCHEWAN	81,277	21,754
12 POWDER RIVER BASIN	112,323	26,130
13 ANADARKO BASIN	15,365	9,395
Total	9,900,365	2,482,510

- CORPORATE HEADQUARTERS
- DIVISION OFFICE
- DRILLING ACTIVITY
- PRODUCING OIL PROPERTIES
- PRODUCING GAS PROPERTIES
- AREAS OF INTENSIVE GEOLOGICAL STUDY
- AREAS OF CLARK CANADIAN PROPERTIES

Report to Shareholders

Clark Canadian Exploration Company, in the fiscal year ended May 31, 1970, effected significant progress toward its objective of building a comprehensive natural resources company with an aggressive exploration posture. It is perhaps worthy of note that this progress was achieved in a period of considerable economic difficulty, caused primarily by tight money conditions.

EXPLORATION

As previously announced, Clark Canadian made an important gas discovery in the Anadarko Basin of Western Oklahoma in July, 1970. The company holds a very significant 37½% working interest in this discovery, the full extent of which had not been determined as of the date of this report.

From the standpoint of future exploration, the most important events during the 1970 fiscal year were the negotiations which led to your company's entering into joint exploration programs with two major United States corporations.

Terms of the agreements provide that approximately $10,000,000 will be employed for exploration and exploratory drilling in Canada and in the Anadarko Basin of Western Oklahoma and Texas over the next two years. Your company will manage the exploration activities, for which a management fee will be paid, and will have a carried working interest in the programs.

Management will continue to undertake only those exploration projects which appear to offer the potential for significant new discoveries of petroleum reserves. Your company expects to participate in more than twenty of such projects during the current fiscal year. Each project will have the potential of substantially increasing company reserves.

In addition to the two major joint exploration programs mentioned above, Clark Canadian is actively engaged in current exploration for natural gas and oil in Western Canada, the Anadarko Basin of Western Oklahoma and the Rocky Mountain area.

PERSONNEL

To provide for continuing growth, the company has expanded management resources during the year with the following appointments: Claude R. Nash, a certified public accountant formerly associated with our auditors Arthur Andersen & Co., as corporate secretary, treasurer and chief financial officer; Douglas B. Leitch, formerly with Union Oil Company of Canada Limited, as manager of the Canadian Division; and Ted C. Fowler, a geologist who has been associated with Clark Canadian for some time, as manager of the Oklahoma Division.

We are pleased that Donald G. Lawson, president of Moss, Lawson and Company Limited, and vice-chairman of the Board of Governors of the Toronto Stock Exchange, has recently joined the company's board of directors.

The staff of the Calgary office has been expanded from two to six employees and a new divisional office, to be staffed by eight persons, has been opened in Oklahoma City.

The company's administrative functions will continue to be discharged from the corporate headquarters in Denver, Colorado.

We expect our 1971 fiscal year will be one of intensive petroleum exploration as we utilize the many complementary talents of our management and scientific groups. We are intensely proud of your company and believe we now stand on the threshold of a period of extraordinary growth potential.

FINANCIAL

Operating revenues in the 1970 fiscal year amounted to $808,145 compared with $291,520 in the previous year. Despite this substantial increase in revenue, operations during the year resulted in a net loss to the company of $224,161. This result must be measured against the strong corporate foundation, described in this report, which has been established during the period.

Your company is in a solid financial position, and will be able to take advantage of this foundation in the future.

PRODUCTION

Oil sales during the 1970 fiscal year were $326,481 compared with $32,972 in 1969. This increase in production was the result of the Collums field discovery. The field was developed in the early part of the 1970 fiscal year and it is presently being unitized as later described in this report.

RESERVES

Also due to the Collums field discovery, your company's reserves, as determined by independent petroleum engineers, increased to approximately 680,000 barrels of oil as of May 31, 1970. These reserve estimates do not include any amounts relating to the company's Oklahoma gas discovery in July of this year. The Oklahoma find is described in greater detail later in this report.

ACREAGE HOLDINGS

During the past fiscal year gross acreage increased to 9,900,365 acres from 8,723,316 acres. Net acreage increased to 2,482,510 acres from 2,054,266 acres. This increase is in keeping with your company's policy of acquiring, at relatively low prices, large spreads of geologically prospective land in unexplored areas for future disposition.

On behalf of the directors, it is my pleasure to extend our thanks to our shareholders and to our employees for their support which has made possible the continued success of the company during the past fiscal year. We intend to warrant your continuing confidence.

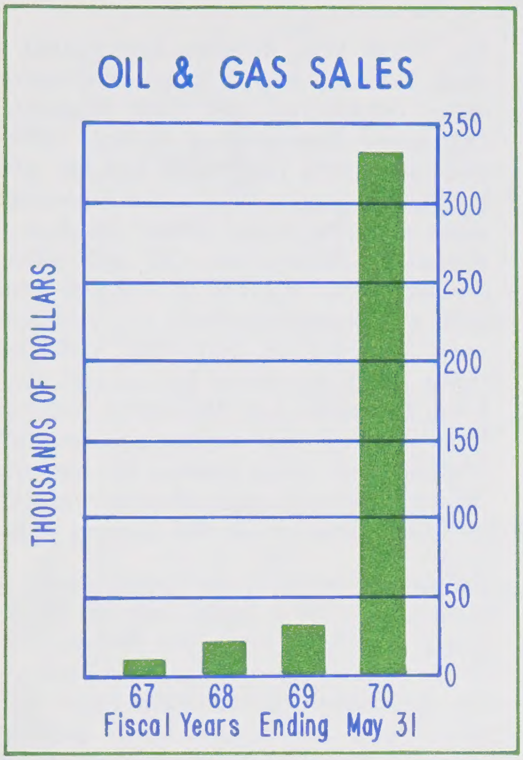
On behalf of the Board,

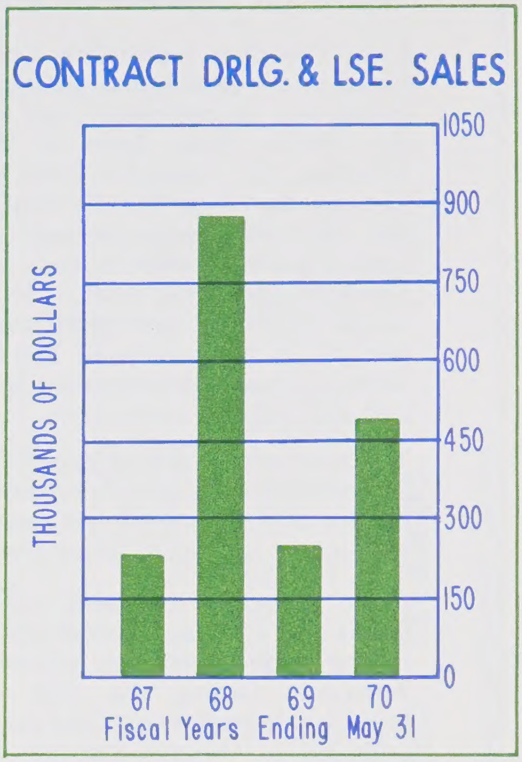
Gene Clark Jr.

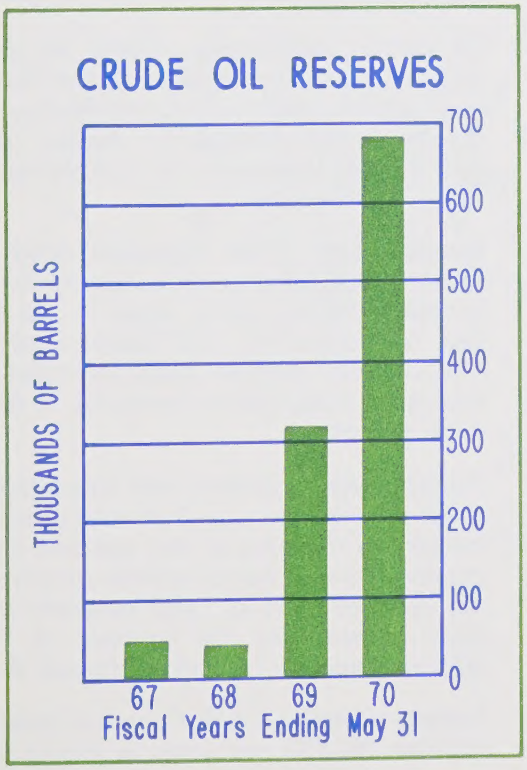
GENE CLARK, Jr.,
President and Chief
Executive Officer.

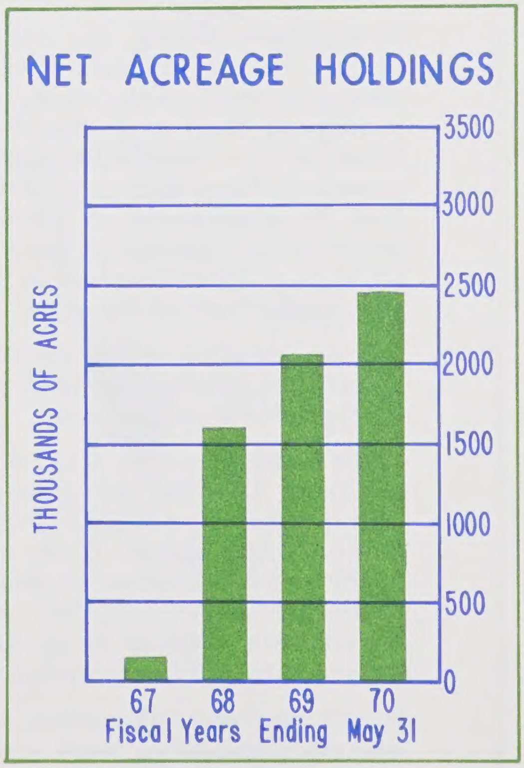
August 14, 1970.

Sales, Reserves and Acreage Gains in 1970 Fiscal Year









Report on Exploration and Development

Clark Canadian Exploration Company is engaged in the exploration, development and/or production of petroleum and natural gas in the Powder River Basin of Wyoming and Montana, the Anadarko Basin of Oklahoma, Canada, the Arctic Islands, Alaska and, during the 1970 fiscal year, through its subsidiary, Clark Canadian Offshore, Inc., in the offshore Louisiana and Texas areas. The company acquires promising geological prospects identified by its technical staff and conducts the exploration and development for its own behalf and industry participants.

The company is also engaged in the practice of acquiring large spreads of geologically prospective land, in unexplored areas, at relatively low prices for future disposition.

Clark Canadian maintains exploratory programs and a strong acreage position in many of the major petroleum provinces of North America. During the past year, primary emphasis in exploration and development has centered in Western Canada, the Anadarko Basin of Western Oklahoma and the Rocky Mountain Region. It is expected that drilling activity will again be concentrated in these areas in the coming year, with particular emphasis directed toward the two joint exploration programs in Western Canada and the Anadarko Basin.

Developments during the past year point to the eventual establishment of major petroleum reserves in the Canadian Arctic Islands and the continental shelf of Eastern Canada. Clark Canadian has established a meaningful acreage position in these areas and the long-term outlook for development of petroleum reserves on the lands is promising, notwithstanding the logistical problems involved in the exploration and development of the areas.

A more detailed review of exploration and development during the past year and plans for the coming year follows.

Arctic Islands: Clark Canadian holds an undivided 1,109,545 net acres in exploration permits covering 4,383,358 gross acres in the offshore Arctic Islands. These permits are primarily located nearshore in areas where water depths are relatively shallow. A map indicating company holdings in the Arctic Islands is shown on Page 5 of this report.

In the past year, agreements were finalized whereby exploratory work commitments in the North Ellef Ringnes Island area and the Axel Heiberg Island area were assumed by other companies. At Ellef Ringnes, French Petroleum Company of Canada will earn an undivided 20% interest in 591,145 gross acres by performance of work commitments for four years covering these lands. At Axel Heiberg, Westcoast Production, Ltd. will earn an undivided 20% interest in 536,310 gross acres with a like commitment. In addition, Westcoast received an undivided 30% interest in these lands in return for a cash payment to Clark Canadian and the other participants. It is anticipated that similar agreements will be reached with other companies for assumption of work commitments on other permits owned by Clark Canadian in the coming year.

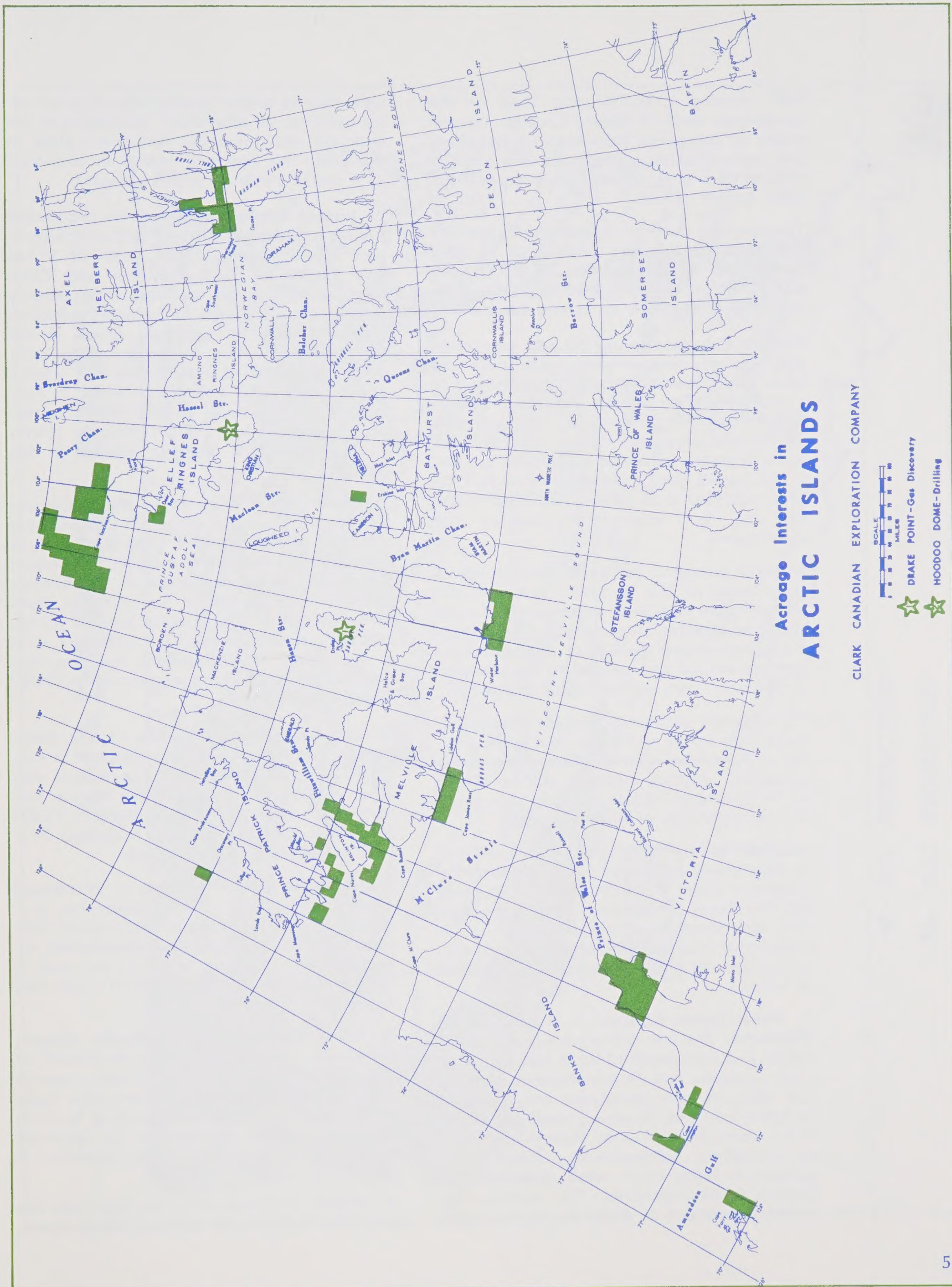
Exploration work in the Arctic Islands has been accelerating at a rapid rate in the past two years, largely through the efforts of the Panarctic consortium. To date, the Panarctic group has discovered gas at Drake Point on Melville Island and the accumulation appears to be major in size. Panarctic is currently drilling a well at Hoodoo Dome on Ellef Ringnes Island on a large surface structure. In addition, major exploratory programs in the Arctic Islands are being instigated or contemplated by other companies at the present time. These programs will continue the evaluation of this vast geological province.

Of further significance during the past year was the successful voyage of the Humble Oil and Refining tanker S.S. Manhattan through the Northwest Passage to Alaska, indicating that future shipments of petroleum by this route are feasible.

Beaufort Sea: Clark Canadian holds an undivided 71,455 net acres in exploration permits covering 285,821 gross acres in the Beaufort Sea, approximately 100 miles north of the Imperial Oil Limited Atkinson Point oil discovery on Tuktoyaktuk Peninsula, in the Northwest Territories.

The company, together with its participants in these permits, plans to join with other acreage owners in the area in the conduct of a joint marine reconnaissance seismic program during the summer of 1970. This program was originally planned for the summer of 1969 but adverse weather conditions forced the delay.

Eastern Canada: Clark Canadian holds an undivided 282,533 net acres in exploration per-



Acreage Interests in
ARCTIC ISLANDS
CLARK CANADIAN EXPLORATION COMPANY
SCALE
MILES
DRAKE POINT—Gas Discovery
HOODOO DOME—Drilling
ARCTIC OCEAN
AXEL HEIBERG ISLAND
EUREKA S.
GREELY FIORD
BAUMAN FIORD
NORWEGIAN BAY
GRAHAM I.
JONES SOUND
DEVON ISLAND
BAFFIN
AMUND RINGNES ISLAND
CORNWALL I.
Belcher Chan.
Sverdrup Chan.
Hassel Str.
Peary Chan.
MEIGHEN I.
ELLEF RINGNES ISLAND
KING CHRISTIAN I.
GRINNELL PEN.
Queens Chan.
CORNWALLIS ISLAND
Barrow Str.
SOMERSET ISLAND
PRINCE OF WALES ISLAND
BATHURST ISLAND
Maclean Str.
LOUGHEED I.
CAMERON I.
HELENA I.
Byam Martin Chan.
BYAM MARTIN I.
NORTH MAGNETIC POLE
PRINCE GUSTAF ADOLF SEA
BORDEN IS.
MACKENZIE KING ISLAND
Hazen Str.
SABINE PEN.
Drake Pt.
MELVILLE ISLAND
Winter Harbour
VISCOUNT MELVILLE SOUND
STEFANSSON ISLAND
Fitzwilliam Str.
EMERALD I.
PRINCE PATRICK ISLAND
EGLINTON I.
M'Clure Strait
DUNDAS PEN.
VICTORIA ISLAND
Prince of Wales Str.
BANKS ISLAND
Amundsen Gulf
Cape Parry

mits covering 1,130,135 gross acres on the continental shelf of Eastern Canada. Several major oil companies have begun comprehensive exploration programs in this area and significant oil and gas shows have been noted in wells drilled recently.

The company made no attempt during the past year to secure industry participants in these lands. The recent upsurge of exploration activity should, however, lead to arrangements with other companies on a favorable basis.

Western Canada: During the past year, company management devoted much time and effort to the formulation and establishment of a joint exploration program in Western Canada with a major U.S. corporation. The agreement for the joint program is now in effect and will result in greatly expanded exploration activity. In this regard, the Canadian Division staff has been expanded to six persons and overall planning of the exploration program has commenced.

Intensive geological and geophysical studies in many areas of the Western Canadian sedimentary basin have been undertaken and many highly prospective areas noted. Comprehensive computerized geological programs have been developed and utilized in the selection of favorable areas and individual prospects.

The company anticipates that the major drilling activity will be conducted during the coming winter season when most areas are readily accessible. Primary emphasis will be placed on the drilling of wildcat prospects in exploration for reservoirs of high potential.

Anadarko Basin: Clark Canadian has continued to place strong emphasis on exploration in the Anadarko Basin in Northwestern Oklahoma and the Texas Panhandle. During the past year the company acquired acreage in six prospective areas, selected on the basis of subsurface geology and geophysics, and described as follows:

1) West Okeene Prospect — Major County, Oklahoma: The test well on this prospect was drilled to a total depth of 9,714 feet jointly by Clark Canadian and An-Son Corporation with one other industry participant and found to be non-productive; however, significant shows of gas were observed in the Hunton and Chester formations. Subsequently, portions of the company's lease block were requested for farmout by two operators. The company has reached a decision to delay any farmout until such time as further geological and geophysical work can be scheduled. Evaluation of this data will determine the company's plans in this area. The Company retains an undivided 25% working interest in this prospect.

2) Mutual Townsite Prospect — Woodward County, Oklahoma: The test well on this prospect was drilled to a total depth of 11,344 feet jointly by Clark Canadian and Cities Service Oil Company with two other industry participants and found to be non-productive. Excellent shows of gas were found in the Morrow and Hunton formations. The company has scheduled field gravity and seismic operations on this lease block and it is anticipated that additional drilling will be carried out in this area. The Company retains an undivided 25% working interest in this prospect.

3) North Seiling Prospect — Major County, Oklahoma: The test well on this prospect was drilled to a total depth of 8,330 feet by Clark Canadian with two other industry participants and found to be productive in the Chester (Mississippian) formation. The company holds an undivided 37.5% working interest in the test well and in approximately 3,000 net acres in this block. Further details regarding this well will be found in the section on PRODUCTION AND RESERVES.

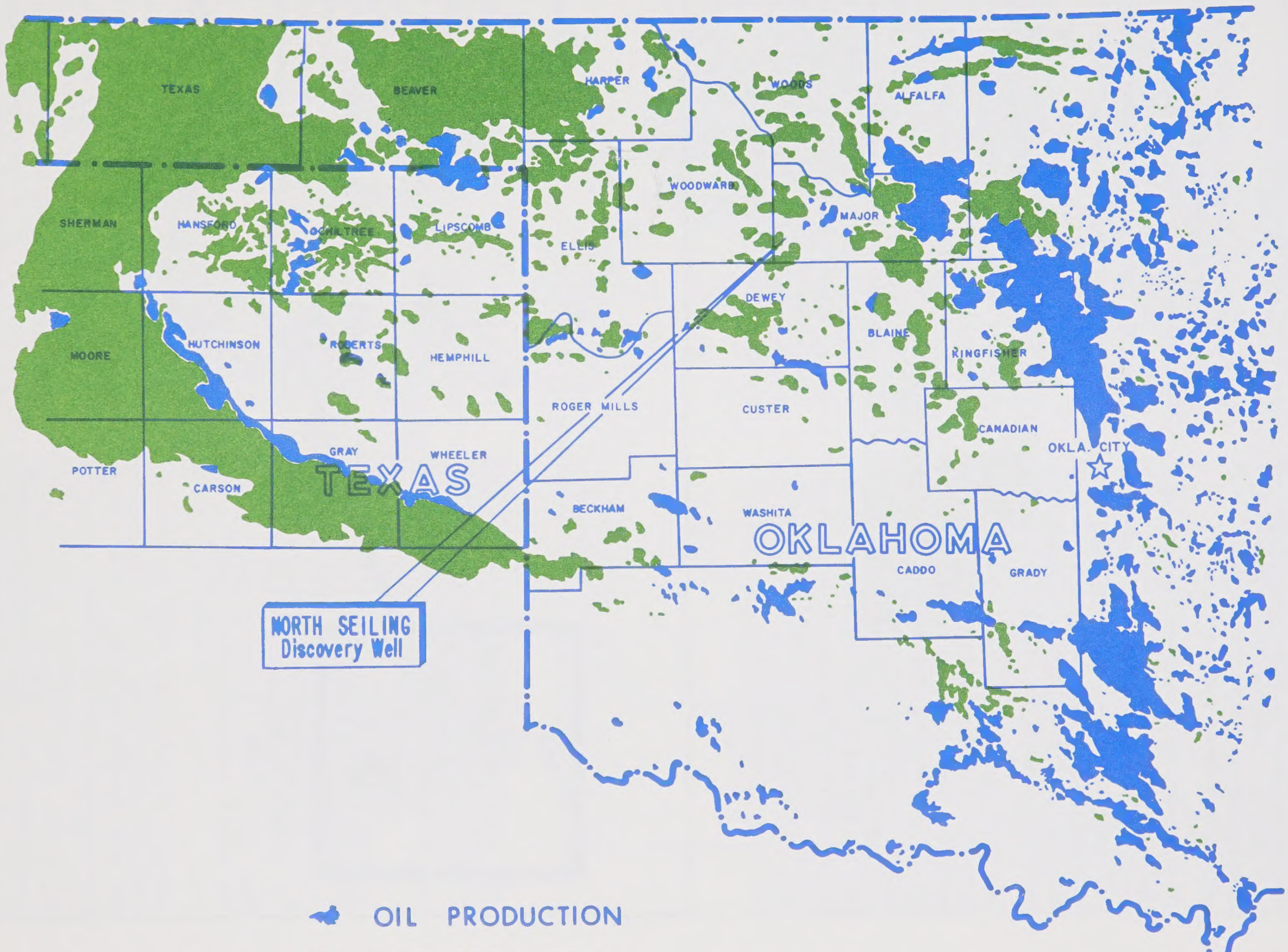
4) East Arnett Prospect — Ellis County, Oklahoma: The test well on this prospect is currently being drilled by the company and two other industry participants to the Hunton formation at an anticipated total depth of 13,800 feet. The company holds an undivided 25% working interest in this prospect.

5) Northeast Mutual Prospect — Woodward County, Oklahoma: The company has purchased oil and gas leases in this prospect area covering 1,585 net acres and negotiations are in progress for farmout lands. A test well to the Hunton formation at a depth of 11,000 feet is planned for this area.

6) North Burmah Area — Dewey County, Oklahoma: The company has purchased oil and gas leases in this prospect area covering 1,542 net acres. Farmout request have been tendered to other operators holding lands in the area. Should the farmouts be approved a test well to test the Hunton formation at 14,700 feet will be scheduled.

A notable achievement of the past year has been the negotiations between the company

ANADARKO BASIN



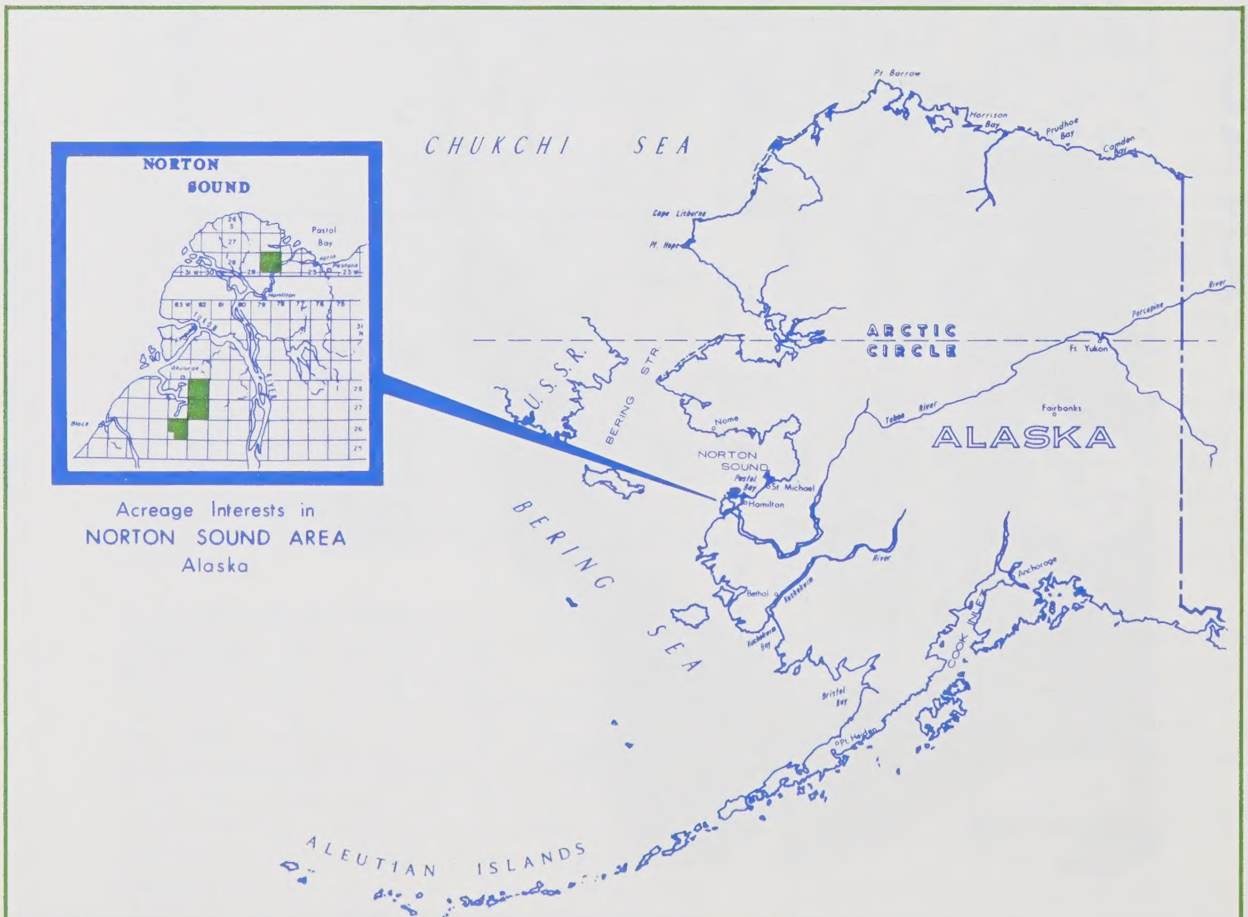
and a second major U.S. corporation which led to agreement on a joint exploration program in the Anadarko Basin. The program will be in effect for a minimum of two years and involve a greatly accelerated exploration effort in acquisition of lands and drilling activity.

Consequently, an Oklahoma Division office has been opened and staffed. As in Western Canada, extensive geological and geophysical studies are in progress, several utilizing computerized data. Drilling of the first test wells to be included in the joint exploration program is expected in the near future.

The Anadarko Basin is an area of prolific natural gas production and reserves. With the expanding natural gas market in the United States and the anticipated rise in natural gas price at the wellhead, primary emphasis of the joint exploration program will be placed on development of natural gas reserves. Prime objectives will be the Hunton, Morrow, Chester, Tonkawa, Cottage Grove, and Oswego formations. Secondary objectives will include the Red Fork, Osage and Meramac formations. Long range objectives will include deeper formations in the Silurian and Ordovician systems. A map of the Anadarko Basin is shown on Page 7 of this report.

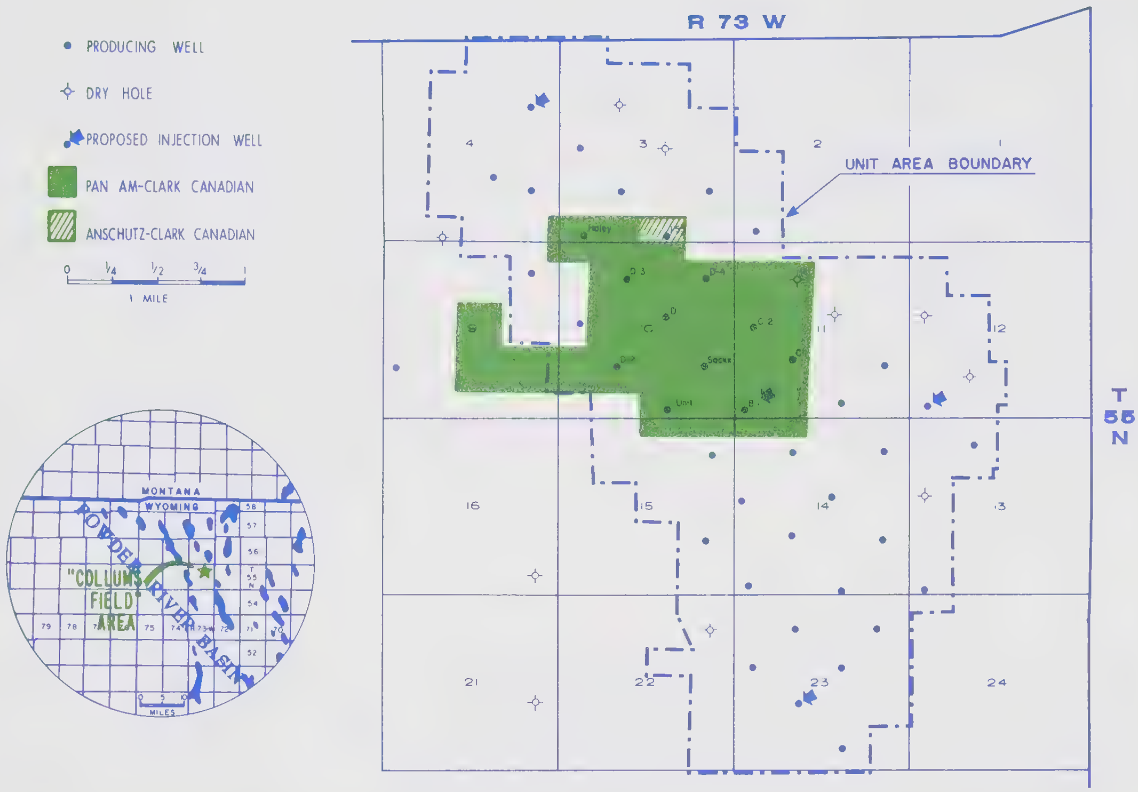
Rocky Mountain Region: Clark Canadian has continued its exploration effort in the Powder River Basin during the past year. The company's strong lease position has been maintained in anticipation of further activity and new acreage has been acquired in several areas of interest.

During the past winter, the company drilled the four-well Bear Creek/Trail Creek program. The test wells were non-productive in the Muddy sandstone, but undivided interests in 10,000 acres were earned by their drilling. The company now has firm commitments from other operators for the drilling of six additional test wells on or near company acreage and management will commit a portion of its acreage toward the drilling of the six wells. Agreements will be sought by the company to provide additional evaluation of the company's acreage by other operators.



Acreage Interests in
NORTON SOUND AREA
Alaska

Collums Field — Campbell County, Wyoming



Clark Canadian also maintains a strong acreage position in the Benteen-Crow area in the northwestern portion of the Powder River Basin. During the past year the company purchased 4,800 additional acres in this area and, jointly with Pan American Petroleum Corporation, drilled two test wells. The wells were non-productive in the Muddy sandstone but subsequent detailed geologic studies indicated a strong prospective area to the east of these wells.

At a subsequent Crow Indian Agency lease sale the company purchased a full interest in 2,500 acres and currently plans to drill or contribute toward the drilling of a well or wells in this area during 1970.

Alaska: Clark Canadian holds an undivided 67,919 net acres in 201,102 gross acres in the form of Federal oil and gas lease applications in several geological provinces in the State of Alaska. These areas of interest were selected after the discovery of vast oil reserves at Prudhoe Bay on the north slope of Alaska. The state has experienced increasing exploration activity in many areas since the discovery at Prudhoe Bay and additional discoveries are anticipated by industry personnel.

One of the most prospective areas for development of long-range petroleum reserves is the Norton Sound area on the Yukon River Delta. Other companies with holdings in the area have scheduled major seismic programs onshore to augment previous seismic work done by the United States Geological Survey offshore in the Bering Sea.

The offshore geophysical program indicates the probability of a Tertiary sedimentary basin on the delta, continuing offshore into the Bering Sea. The Tertiary basin would be most prospective for the accumulation of hydrocarbons. Clark Canadian holds 35,840 net acres in 89,600 gross acres in the Norton Sound area. A map of Alaska and the Norton Sound is shown on Page 8 of this report. Interests

in these lands will be offered to the industry in the form of a joint exploration package in the coming year.

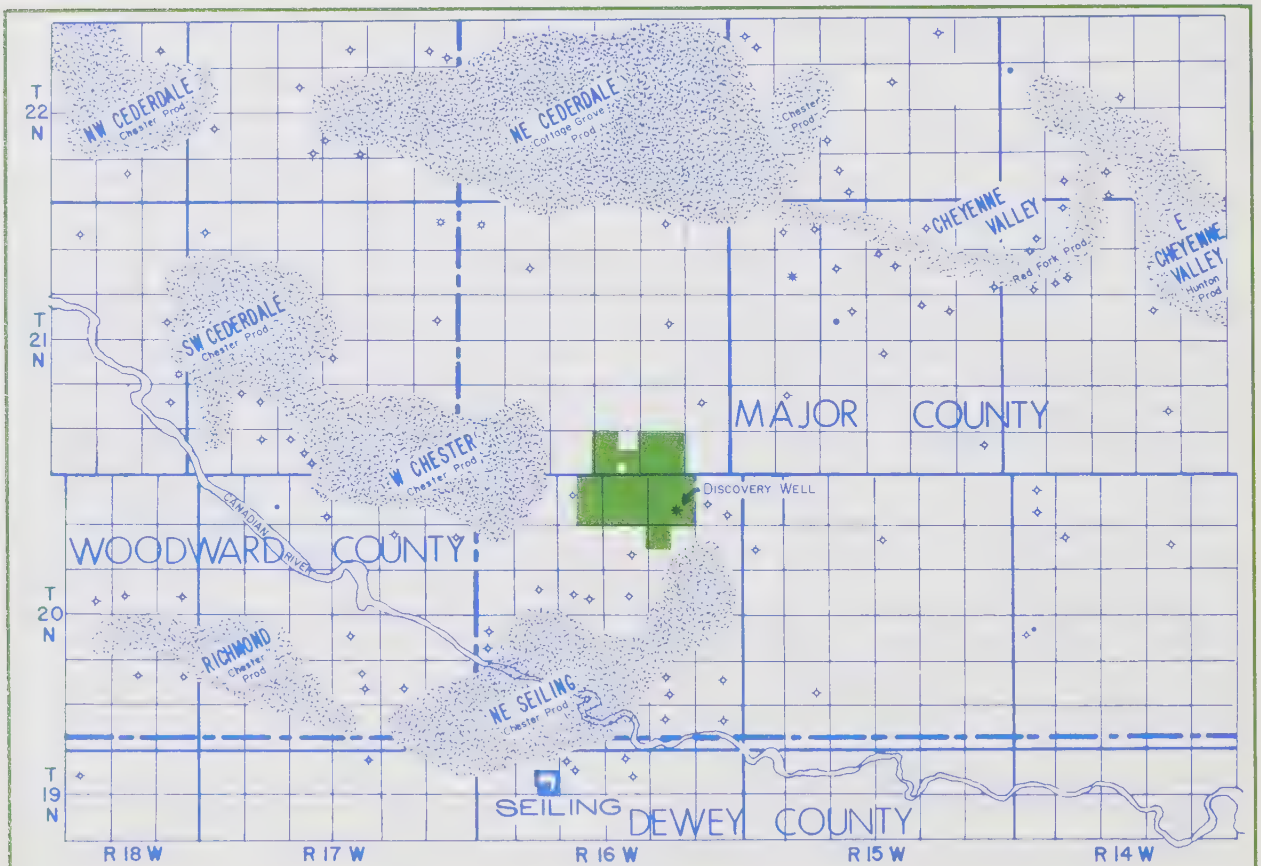
Report on Production and Reserves

Important activities of the company during the past year in increasing production and reserves include the completion of development wells and agreement on unitization and secondary recovery procedures in the Collums field, and establishment of wet gas production in the North Seiling area.

Since May 31, 1969, eight successful development wells have been drilled and completed in the Collums field. The eight wells have pay thickness from 12 to 28 feet of net Muddy sandstone, with porosities to 28%. Initial potentials of the wells ranged from 160 to 634 barrels of oil per day.

Late in 1969 Clark Canadian, Pan American Petroleum Corporation, Atlantic Richfield Company and other interest owners in the Collums field area formulated plans for the unitization of the field and development of secondary recovery procedures for maximum oil and gas recovery. Agreement on parameters of participation was reached by all parties and installation of water injection facilities and equipment was started during the early part of 1970. Injection of water is scheduled to begin on or before September 1 of this year. Independent engineers have estimated the company's proven recoverable reserves from the field at 510,000 barrels after production to the end of fiscal 1970. A map of the Collums field and unit outline is shown on Page 9 of this report.

Since the end of the 1970 fiscal year, but prior to the date of this report, Clark Canadian drilled the initial well on its North Seiling prospect in Section 2, Township 20 North,



Acreage Interests in

N. SEILING AREA

SCALE: 1" = 3 MILES

Schedule of Exploratory and Development Drilling

June 1, 1969 to May 31, 1970

Well Name	Area	Depth	Company Interest	Status
Pan Am — USA Clark Canadian "C" #2	Wyoming	7415′	25% Working Interest	Muddy Sandstone Oil Well
Pan Am — USA Clark Canadian "D" #1	Wyoming	7370′	25% Working Interest	Muddy Sandstone Oil Well
Pan Am — USA Clark Canadian "D" #2	Wyoming	7390′	25% Working Interest	Muddy Sandstone Oil Well
Pan Am — USA Clark Canadian "D" #3	Wyoming	7440′	25% Working Interest	Muddy Sandstone Oil Well
Pan Am — USA Clark Canadian "D" #4	Wyoming	7430′	25% Working Interest	Muddy Sandstone Oil Well
Pan Am — Haley Unit #1	Wyoming	7410′	12.5% Working Interest	Muddy Sandstone Oil Well
Pan Am — Sacks Unit #1	Wyoming	7385′	12.5% Working Interest	Muddy Sandstone Oil Well
Anschutz Corporation — #1-3 Government 55	Wyoming	7387′	4.1% Working Interest	Muddy Sandstone Oil Well
Clark Canadian — #1 Hawks	Montana	8129′	37.5% Working Interest	Dry and Abandoned
Clark Canadian — Federal #1	Montana	8325′	37.5% Working Interest	Dry and Abandoned
Clark Canadian — #1 Whitham	Montana	7336′	37.5% Working Interest	Dry and Abandoned
Clark Canadian — #1 Powers	Montana	7673′	37.5% Working Interest	Dry and Abandoned
Pan Am — Crow Tribal "B"	Montana	3526′	25% Working Interest	Dry and Abandoned
Pan Am — Crow Tribal "C"	Montana	3202′	25% Working Interest	Dry and Abandoned
An-Son — Clark Canadian #1 Randolph	Oklahoma	9714′	25% Working Interest	Dry and Abandoned

The Company's wholly owned subsidiary, Clark Canadian Offshore, Inc., had a .03279 working interest in seven test wells drilled and abandoned in the Louisiana and Texas offshore areas as a part of the C & K Offshore program.

Range 16 West, Major County, Oklahoma. The well encountered gas bearing limestone with excellent porosity in the Upper Chester (Mississippian) formation at a depth of approximately 8,145 feet. A drillstem test was run in the Chester formation and, after one minute, gas flowed at a rate of 11 million cubic feet per day with a strong spray of condensate. Recovery in the test tool was 200 feet of condensate with no water. Pressures recorded were well above average for the Chester formation. Electric log analysis indicated a minimum of 16 feet of productive section in the Upper Chester with two additional zones below this interval indicated to be gas bearing. The company holds an undivided 37.5% working interest in the test well and in a block of approximately 3,000 net acres surrounding the well, all of which is prospective. It is probable that the first of the development wells will be drilled to the Hunton formation, estimated at 10,500 feet. Spacing for gas in this area is 640 acres per well. A map of the Seiling area is shown on Page 10 of this report.

clark canadian exploration company

CONSOLIDATED BALANCE SHEET

(Canadian Dollars)

ASSETS	May 31 1970	May 31 1969 Restated (Note 3)
CURRENT ASSETS:		
Cash	**$ 207,198**	$ 334,450
Certificates of deposit	**—**	657,315
Marketable securities, at cost which approximates market	**—**	300,255
Accounts and notes receivable	**44,220**	101,042
Leases held for resale, at cost	**496,940**	222,466
Deposits and prepaid expenses	**61,356**	35,104
Total current assets	**809,714**	1,650,632
PROPERTY AND EQUIPMENT, at cost (Notes 2, 3 and 4):		
Oil and gas properties, including lease and well equipment	**1,291,613**	596,174
Furniture and fixtures	**32,826**	14,458
	1,324,439	610,632
Less — Reserves for depreciation, depletion and amortization	**346,649**	184,179
	977,790	426,453
	$1,787,504	$2,077,085

AUDITORS' REPORT

To the Shareholders and the Board of Directors,
Clark Canadian Exploration Company:

We have examined the consolidated balance sheet of CLARK CANADIAN EXPLORATION COMPANY (a Texas corporation) and subsidiary as of May 31, 1970, and the related consolidated statements of operations, shareholders' investment and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Clark Canadian Exploration Company and subsidiary as of May 31, 1970, and the results of their operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in the method of accounting for deferred income taxes, as explained in Note 3 to the consolidated financial statements.

Denver, Colorado,
July 14, 1970.

ARTHUR ANDERSEN & CO.

LIABILITIES	1970	1969 Restated (Note 3)
	May 31	
CURRENT LIABILITIES:		
Short-term bank notes payable, 9% and 9¼%, unsecured	**$ 237,558**	$ 266,841
Current maturities on long-term debt	—	10,893
Accounts payable	**66,151**	78,013
Accrued liabilities	**5,382**	8,418
Total current liabilities	**309,091**	364,165
LONG-TERM DEBT:		
Note payable to bank, less current maturities above	—	12,346
SHAREHOLDERS' INVESTMENT (Notes 2, 3 and 5):		
Common stock, no par value — Authorized 5,000,000 shares Issued 1,916,285 shares in 1970 and 1,914,285 shares in 1969	**1,229,146**	1,227,646
Capital surplus	**373,596**	373,096
Retained earnings (deficit)	**(124,329)**	99,832
	1,478,413	1,700,574
	$1,787,504	$2,077,085

The accompanying notes to consolidated financial statements are an integral part of this balance sheet.

Approved on behalf of the Board:

Gene Clark, Jr.

Gene Clark, Jr., Director.

Patrick S. Beaird

Patrick S. Beaird, Director.

Consolidated Statement of Operations

(Canadian Dollars)

	Year Ended May 31 1970	1969 Restated (Note 3)
OPERATING REVENUES:		
Contract drilling, lease sales and related services	**$ 481,664**	$ 258,548
Oil and gas production income	**326,481**	32,972
	808,145	291,520
OPERATING EXPENSES (Note 2):		
Cost of contract drilling, lease sales and related services	**416,888**	145,175
Oil and gas production expenses	**79,058**	8,936
General and administrative expenses	**392,931**	237,276
Depreciation, depletion and amortization	**162,470**	21,416
	1,051,347	412,803
(LOSS) FROM OPERATIONS	**(243,202)**	(121,283)
OTHER INCOME (EXPENSE):		
Interest expense	**(3,578)**	(20,742)
Other	**22,619**	25,697
	19,041	4,955
NET (LOSS) (Note 3)	**$ (224,161)**	$ (116,328)
NET (LOSS) PER COMMON SHARE (Note 6)	**$(.12)**	$(.09)
NET (LOSS) PER COMMON SHARE ASSUMING FULL DILUTION (Note 6)	**$(.12)**	$(.09)

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Statement of Shareholders' Investment
(Canadian Dollars)

	Common Stock				
	Number of Shares Outstanding	$1,082 Par Value	No Par Value	Capital Surplus	Retained Earnings (Deficit)
BALANCES, May 31, 1968, as previously reported	15,000	$ 16,230	$ —	$ —	$ 128,455
Adjustment for change in method of acounting for deferred income taxes (Note 3) ...					87,705
BALANCES, May 31, 1968, as restated	15,000	16,230	—	—	216,160
Common stock issued in connection with merger with Amherst Canadian Oil Company	137	148		10,887	
Common stock issued in exchange for producing oil and gas properties	155	168		12,352	
Conversion of 15,292 shares of $1.082 par value common stock into 1,114,285 shares of newly authorized no par value common stock	1,098,993	(16,546)	16,546		
Sale of 700,000 shares of no par value common stock	700,000		1,050,000	350,000	
Stock issuance expenses				(53,843)	
Exercise of option to purchase 100,000 shares of common stock by underwriter	100,000		161,100	53,700	
Net (loss) for the year					(116,328)
BALANCES, May 31, 1969	1,914,285	—	1,227,646	373,096	99,832
Sale of 2,000 shares of no par value common stock	2,000		1,500	500	
Net (loss) for the year					(224,161)
BALANCES, May 31, 1970	1,916,285	$ —	$1,229,146	$ 373,596	$ (124,329)

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Statement of Source and Application of Funds
(Canadian Dollars)

	Year Ended May 31	
	1970	1969 Restated (Note 3)
FUNDS WERE PROVIDED FROM:		
Net (loss) for the year	**$ (224,161)**	$ (116,328)
Add charges to income not requiring funds — Depreciation, depletion and amortization (Note 2) ...	**162,470**	21,416
Funds provided from operations	**(61,691)**	(94,912)
Net proceeds from issuance of common stock	**2,000**	1,561,999
	(59,691)	1,467,087
FUNDS WERE APPLIED TO:		
Additions to oil and gas properties	**695,439**	177,846
Additions to furniture and fixtures	**18,368**	7,438
Reduction in long-term borrowings	**12,346**	10,520
	726,153	195,804
INCREASE (DECREASE) IN WORKING CAPITAL	**$ (785,844)**	$1,271,283

The accompanying notes to consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements

May 31, 1970

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Clark Canadian Offshore, Inc., formed in 1969. All inter-company accounts and transactions have been eliminated.

2. METHOD OF ACCOUNTING FOR OIL AND GAS PROPERTIES

The Company follows the policy generally known as full cost accounting in which all direct costs incurred in the acquisition, exploration and development of oil and gas reserves (including intangible development costs, dry hole costs, costs of undeveloped properties, abandonments and lease rentals) are capitalized and amortized on a company-wide unit-of-production method based on total estimated recoverable oil and gas reserves. Profits or losses are recognized on the disposition of those leases held in inventory for resale.

3. INCOME TAXES

Because of the deductibility for tax purposes of certain costs capitalized for financial reporting purposes, no income taxes are currently payable by the Company. Prior to the fiscal year ended May 31, 1970, deferred income taxes were provided for these timing differences. During fiscal 1970, the Company retroactively changed its method of accounting for income taxes so that deferred taxes are not provided for these timing differences, provided estimated future statutory depletion and other tax deductions equal or exceed the capitalized cost of oil and gas properties. The effect of this change was to increase retained earnings for the fiscal years prior to 1969 by $87,705 and to increase the net loss for the year ended May 31, 1969, by $48,690, as compared with the amounts previously reported. The accompanying consolidated financial statements have been adjusted to reflect this change.

4. COMMITMENTS

The Company has contracted to lease new office space at a total rental of $39,000 annually for a ten-year term commencing April 1, 1971. It is the intent of management to sublease approximately one-half of this space until such time as it is needed by the Company.

In connection with exploration in the Louisiana and Texas offshore venture in which the Company's wholly-owned subsidiary, Clark Canadian Offshore, Inc. is participating, the Company has agreed to spend $100,000 annually for two years ending June 30, 1972.

5. STOCK OPTIONS

Pursuant to resolutions by the Board of Directors, stock options consisting of 108,500 shares of no par value common stock have been granted to officers and key employees of the Company. These options are exercisable at any time at $2.00 per share and terminate at varying dates through March 23, 1975. None of these options has been exercised as of May 31, 1970.

6. LOSS PER SHARE

The computations of loss per common share are based on the weighted average of the shares outstanding and do not include the effect of the outstanding options since their inclusion would reduce the loss per share.

ANNUAL MEETING

Shareholders are cordially invited to attend the annual meeting of the company, to be held on Tuesday, September 15, 1970, at 10 a.m. at the Penthouse, 19th Floor, Canada Trust Company Building, 110 Yonge Street, Toronto, Ontario.

clark canadian exploration company
Annual Report / 1970

Printed in Canada.

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and subsidiary

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Six months ended November 30 1970	1969
	(U.S. Currency – unaudited)	
Funds were provided from:		
Net income (loss) for the period	$ 88,005	$(122,343)
Add charges to income not requiring funds – Depreciation, depletion and amortization	45,000	61,975
Funds provided from operations	133,005	(60,368)
Sale of no par value common stock	–	1,849
	133,005	(58,519)
Funds were applied to:		
Additions to oil and gas properties	220,749	383,870
Additions to furniture and fixtures	35,033	12,534
Reduction in long-term borrowings	–	11,420
	255,782	407,824
Decrease in working capital	$122,777	$ 466,343

NOTE: The consolidated statements include the accounts of the company and its wholly-owned subsidiary, Clark Canadian Offshore Inc., formed in 1969. All inter-company accounts and transactions have been eliminated. Because of the deductibility for tax purposes, of certain costs capitalized for financial reporting purposes, no income taxes are currently payable by the company. Deferred income taxes are not provided for these timing differences provided estimated future statutory depletion and other tax deductions equal or exceed the capitalized cost of oil and gas properties.

clark canadian exploration company
(Incorporated under the laws of the State of Texas)

DIRECTORS

Patrick S. Beaird *Denver, Colorado*

E. B. Clark, Sr. *Wichita Falls, Texas*

Gene Clark, Jr. *Denver, Colorado*

D. G. Lawson *Toronto, Ontario*

Claude R. Nash *Denver, Colorado*

J. N. Sherrill, Jr. *Wichita Falls, Texas*

OFFICERS

E. B. Clark, Sr. *Chairman of the Board*

Gene Clark, Jr. *President and Chief Executive Officer*

J. N. Sherrill, Jr. *Vice-President and General Counsel*

Patrick S. Beaird *Vice-President*

Claude R. Nash *Secretary, Treasurer and Chief Financial Officer*

CORPORATE HEADQUARTERS

824 Patterson Building *Denver, Colorado*
(303) 825-2285

CANADIAN DIVISION

798 Pacific Plaza *Calgary, Alberta*
(403) 262-9586

OKLAHOMA DIVISION

1704 Fidelity National Bank Building *Oklahoma City, Oklahoma* (405) 239-2561

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clark canadian exploration company

INTERIM REPORT
SIX MONTHS ENDED
NOVEMBER 30, 1970

REPORT TO SHAREHOLDERS

FINANCIAL

We are pleased to be able to report that the company's operating revenues for the six months ended November 30, 1970 were $845,739 compared to $260,090 in the same period of the prior year. This increase in operating revenues resulted in earnings to the company of 5¢ per share compared to a loss of 6¢ per share in the same period of the prior year. Your management believes these results represent a turning point in the operations of your company and expects continuing earnings and positive cash flow.

EXPLORATION

During the first half of the current fiscal year, the company completed the drilling of three exploratory wells in the Anadarko Basin of Western Oklahoma. One of these, on the North Seiling Prospect, was successfully completed as a producing sweet gas well. The company has a 37½% working interest in this well, and will have a like interest in the development wells to be drilled in that field in the second half of the current fiscal year.

The company is also participating in the drilling of six additional exploratory wells in connection with its Joint Venture activities in Canada and Oklahoma. One of these wells, on the Pakowki Prospect, drilled by the Canadian Joint Venture has been plugged and abandoned. Four additional wells, one in the Pine Pass Prospect in British Columbia and three on the Wisdom Prospect in Alberta, are presently being drilled by the Canadian Joint Venture. The sixth well is being drilled by the Oklahoma Joint Venture on the East Burmah Prospect. This well is proceeding below 8,000 feet and is programmed to 15,000 feet.

The intrinsic values of the Clark Canadian interests in the drilling activities of the Joint Ventures are not reflected in the financial statements, inasmuch as the company's participation in the drilling is in the form of carried working interests to casing point. It should be noted that reserves developed in this manner will not generate exploratory costs which would have to be amortized against revenues of future periods.

In addition to the company's own drilling activities and that of the Joint Ventures, participation continues in numerous drilling arrangements in several areas which have as their objective the testing of company acreage.

PRODUCTION

As a result of the unitization and development of secondary recovery procedures for maximum oil and gas recovery in the Collums Field and delays encountered in producing from the company's discovery in Oklahoma, the company has experienced a temporary drop in oil and gas production income. This situation will be reversed at such time as the development of the secondary recovery procedures in the Collums Field are successfully completed and the Oklahoma discovery is fully developed and put into production.

OUTLOOK

Drilling activities in the Joint Ventures managed by your company are expected to continue to gain momentum in the second half of the current fiscal year and into the next fiscal year. In addition, your company is presently involved in assembling a number of drilling programs with other industry participants. We continue in our belief that Clark Canadian stands on the threshold of a period of extraordinary growth.

Gene Clark, Jr.

Gene Clark, Jr.
President

January 8, 1971

clark canadian exploration company
and subsidiary

CONSOLIDATED STATEMENT OF OPERATIONS

	Six months ended November 30 1970	1969
	(U.S. Currency – unaudited)	
Operating Revenues:		
Contract drilling, lease sales and related services	$763,764	$ 99,084
Oil and gas production income	81,975	161,006
	845,739	260,090
Operating Expenses:		
Cost of contract drilling, lease sales and related services	547,175	106,569
Oil and gas production expenses	29,286	34,433
General and administrative expenses	136,273	179,456
Depreciation, depletion and amortization	45,000	61,975
	757,734	382,433
Net Income (Loss)	$ 88,005	$(122,343)
Earnings (Loss) per Common Share, Assuming Full Dilution	$ .05	$ (.06)